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MARKET *minute*

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Hartland is an independent institutional and wealth advisory firm that seeks to meet clients' investment objectives with appropriate risk and in a low-cost manner. Once this has been achieved, we seek superior returns compared to client-specific, market-based and peer group benchmarks. We believe broad diversification reduces portfolio volatility and enhances the opportunity for superior risk-adjusted returns.

Equity markets bounced around with most areas of developed markets modestly positive for the month while emerging market equities and core fixed income finished in the red. Trade war concerns eased slightly as the month progressed, though stay tuned as there is certainly more to come as negotiations unfold.

The U.S. economy remains in a fairly positive state with the initial reading on U.S. Q1 GDP growth of 2.3%[1] which was above expectations. The U.S. economy expanded at its slowest pace in a year due to a slowdown in consumer spending, however, the economy held up better than expected based upon improved business investment and a smaller trade deficit. While the consumer may have taken a breather to pay off holiday bills and rebuild savings, businesses picked up the slack perhaps encouraged by corporate tax cuts. Inflation has been rising modestly with the U.S. Consumer Price Index increasing 2.4% year-over-year (core CPI +2.1%)[2]. The labor market continued to tighten with the headline unemployment holding steady at 4.1% and the number of Americans filing for unemployment benefits fell to the lowest level since 1969[3].

The Eurozone business activity continued at a solid pace in April, though the rate of expansion remained weaker than earlier in the year amid signs of weaker demand coupled with supply chain constraints. The IHS Markit's Eurozone Flash Manufacturing Purchasing Managers' Index (PMI) declined to 56.0[4] in April, though the readings are still supportive of global economic activity.

U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	0.3	-1.6	18.1	13.4
S&P 500	0.4	-0.4	13.3	10.6
Russell 2000	0.9	0.8	11.5	9.6
Russell 1000 Growth	0.3	1.8	19.0	12.8
Russell 1000 Value	0.3	-2.5	7.5	7.7
FTSE NAREIT U.S.	0.6	-6.1	-0.9	5.0
Bloomberg Commodity	2.6	2.2	8.0	-4.2

With earnings season in full swing, the markets were able to refocus on fundamentals which have been strong thus far. Despite good earnings reports, the news was not enough to move the markets materially higher. The S&P 500 Index returned 0.4% for the month, while small caps as measured by the Russell 2000 Index advanced 0.9%. The Energy sector was the clear leader during April, returning 9.4%, supported by higher oil prices. On the other end of the spectrum was the Consumer Staples sector which declined 4.3% with several disappointing earnings reports from member companies.

As of April 27 with 53% of companies having reported earnings, 79% of companies have surpassed analysts' expectations[5]. In aggregate, earnings are 9.1% above the estimates with revenues 1.7% above estimates. If that revenue figure holds, it would mark the largest revenue surprise since the third quarter of 2008. The blended year-over-year earnings growth rate for the first quarter is 23.2% with strength across sectors.

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	1.8	0.5	16.1	5.1
MSCI EAFE	2.5	0.9	14.7	5.0
MSCI Emerging Markets	-0.3	1.1	21.9	6.0
MSCI EAFE Small Cap	1.7	2.0	20.8	11.6

International equity markets were mixed during April with the MSCI EAFE Index and MSCI Emerging Markets Index returning +2.5% and -0.3%, respectively. Trade tensions with China, creates unease in the markets and certainly bears monitoring.

There were no surprises from the European Central Bank and the Bank of Japan, and the takeaways seemed to lean dovish. In the UK, expectation for a Bank of England May rate hike plummeted after the first reading of Q1 GDP came in below consensus and posted the weakest annualized growth since Q2 2012[6].

FIXED INCOME MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	-0.7	-2.2	-0.3	1.1
BarCap Global Aggregate	-1.6	-0.3	4.1	2.2
BarCap US High Yield	0.7	-0.2	3.3	5.0
JPM Emerging Market Bond +	-1.5	-3.5	-1.5	4.1
BarCap Muni	-0.4	-1.5	1.6	2.3

The backup in fixed income yields received more attention as the month wore on. U.S. interest rates rose materially across the curve, particularly on short-intermediate maturities, which led to the treasury yield curve flattening. The spread between the 2-year and 10-year Treasury yield reached a decade low during April at 0.41%[7]. The Bloomberg Barclay's Aggregate Index total return for April was -0.74% whereas the longer duration Bloomberg Barclay's Long Gov't/Credit Index returned -1.94%.

The 10-year U.S. Treasury yield rose 21 basis points to 2.95%, the 30-year rose 15 basis points to 3.12%, and the 2-year U.S. Treasury yield increased 22 basis points[6]. The 10-year Treasury briefly hit 3% during April which has been a psychological barrier for some time and this was the first time since January of 2014 that the yield crossed above 3%[6]. Expectations are for two additional quarter point rate hikes by the Federal Reserve in 2018[6] though there are some rumblings around an additional rate hike that was communicated at the last Fed meeting.

Yield helped offset the interest rate movements. High yield's total return for April was +0.7% and bank loans returned +0.5% for the month. The JPM Emerging Market Bond+ Index declined 1.5% in April.

Sources:
1 Bureau of Economic Analysis – U.S. Department of Commerce, 4/27/18
2 Bureau of Labor Statistics – U.S. Department of Labor, 4/13/18
3 Bureau of Labor Statistics – U.S. Department of Labor, 4/6/18
4 IHS Markit, 4/23/18
5 Factset Insight, 4/27/18
6 Bloomberg
7 Bloomberg
8 Bloomberg
9 Bloomberg

Definitions:
Markit Eurozone Manufacturing Purchasing Managers' Index: The Eurozone PMI is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.